G.R.S. IX—5]

Previous references. 1923-24 File No. 4

Serial Nos.

Later references.
D-24 (2, 3, 4, 7, 8, 10, 11, R)
No. 38/45-46

GENERAL AND REVENUE SECRETARIAT.

Serial Nos. Ori 82

Part B for Sept 23.

SUBJECT

A Scheme of Industrial Finance & Land Mortgage Bank in the State

Recd 22/Sept Adm

D-33-E

Draft

GOVERNMENT OF HIS HIGHNESS THE MAHARAJA OF MYSORE

No. FL4260 **General and Revenue Secretariat**

Bangalore, Dated 14 March/23

From

G.F 40-23-1

Rajakaryaprasakta
M. N. KRISHNA RAO, Esq., B.A.,
Financial Secretary to the Government of His Highness the Maharaja of Mysore.

To

W.C.Rose,Esq.,
Manager, Bank of Mysore,
Bangalore.

Sir,

I am directed to invite reference to the attached extracts from the Report of the Mysore Bank Committee - appointed in Government Order ~~dated~~ No.Fl.~~3104=53~~ 5500-49/G.F. 93-19-~~25~~ 11 ~~dated 12th November~~ 9th March 1920 relating to Industrial Finance and Land Mortgage Bank and to request that Government may be favoured with the opinion of the Bank in regard to the recommendations of the Committee.

I have the honour to be,
Sir,
Your most obedient servant,

Draft

13.3.23

for Financial Secretary to Government.

13-3

mk.2.

Extract from the Mysore Bank Committee's Report relating to Industrial Finance.

x x x x x x x

All the preliminary investigation as regards the successful character of the venture and the desirability of giving accommodation is to be made as heretofore by the Department of Industries and Commerce. The cases recommended by the Department as deserving of help might be referred to a Board consisting of the Manager of the Bank, two of its Directors and the Director of Industries and Commerce. The Bank should issue the loans out of a special fund to be created for the purpose either by an advance from Government at interest for a specified term of years or by obtaining long term deposits with, if necessary the guarantee of Government. The rate of interest to be charged to the borrowers should as far as possible be lower than the current rates and be decided by the Board above referred to from time to time. When the special fund is created wholly out of the Government advance or deposits guaranteed by Government and the loans are issued from such funds in accordance with the procedure above mentioned, the share of losses if any, may be borne by Government and the Bank in the proportion of 2/3 and 1/3.

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Extract from the Mysore Bank Committee's Report relating to Land Mortgage Bank.

XX XX XX XX XX

The most important proposals under this head is about the Land Mortgage Bank, the starting of which is under the contemplation of Government. The idea is that the Bonds of the proposed Bank would be guaranteed by Government. The Commitee are inclined to think that the working organisation of the Mysore Bank might be usefully utilised in that connection. They consider that if the two kinds of business and the funds from which they are financed are kept entirely separate it may be possible to press into the service of the New Land Mortgage -

Bank, the experience and expert knowledge of the organisation, which has been so successful in the working of the Bank of Mysore. The Committee accordingly propose that the final scheme of Land Mortgage Bank may be referred to the Bank of Mysore for submitting suitable recommendations in the matter of to Government.

xx xx xx xx

Under the present circumstances

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D.5730

ALL COMMUNICATIONS TO BE ADDRESSED
TO THE MANAGER.
TELEGRAPHIC ADDRESS: "MYSOREBANK."
No.

The Bank of Mysore, Ltd.,

Bangalore, 15th June 1923.

DEWAN'S OFFICE.
Recd. on JUN 16 1923
Reg. No. 7367

Rajakaryaprasakta
M. N. Krishna Rao, Esq., B.A.,
Financial Secretary to the Government of Mysore,
Bangalore.

Dear Sir,

I am in receipt of your letter dated 14th March 1923, F.L.4260, inviting reference to the recommendations of the Committee appointed in Government Order No.F.L. 5500-49/G.F.93-19-11 dated 9th March 1920, and asking for the opinion of the Bank in regard to the Committee's recommendations touching Industrial Finance and the starting of a Land Mortgage Bank for Mysore.

In reply I have to state that since the date of the Committee's report, the subject of industrial finance has been put to a practical test by the most influential Champions of Indian Industries, as well as the founders of the best conceived financial project for rendering financial assistance to the development of industries in India. The Directors do not think it is necessary for them to give their views at length on this subject in view of the published speeches of the Chairman of the Tata Industrial Bank at the

1922-23 Annual Meetings of that Bank when he informed the Shareholders of the practical results of the efforts of the Directors of that Bank to finance and develop industries in India, and also the declaration he made this year that no further finance would be granted by the Tata Industrial Bank for industrial development. This confession of failure ---- coming from one who had set himself the splendid task of making India an industrial country, and to be independent of foreign importations, could but have been made with great reluctance and grief. The fact, however, remains that an Industrial Bank with practically unlimited resources at its call, and under the direction of the most experienced experts in the Indian Industrial World, has proved that the problem of financing and development of new industries is an insurmountable one at present. There is no necessity for me to add any words of my own on this subject beyond remarking that I do not consider there is a sufficiency of experienced Industrialists in this State to undertake the starting and guidance of new industries, and also that the people of this State, individually, do not possess that practical knowledge that is necessary to successfully take up the development of new industries. In view of the experiences of Tata's Bank, the Directors have no hesitation in saying that for the Government to associate itself and provide the necessary funds

for the encouragement of new industries in the State, will also undoubtedly prove, at least, as disastrous as in the experience of the Tata Industrial Bank, which being a public company was in a better position than a Government in dealing with Industrial concerns. The Directors of the Bank of Mysore, Ltd., are always prepared to consider applications for advances to supplement the working resources of companies that give evidence of sound and careful management, but they cannot undertake to provide finance for Block purposes, viz., for Buildings, Machinery, Plant, etc., which is essentially an expenditure for the Shareholders to shoulde They are of opinion that no certificate should be granted by the Registrar of Joint Stock Companies to a company to begin business which, in his opinion, or that of his expert adviser, has not attracted sufficient subscriptions in cash to fully cover all estimated expenditure required for its Block Account, the absence of which is one of the main reasons according accounting for the failure of so many companies. While the fitness of Managing Agents to manage industrial concerns is perhaps more a matter for the Shareholders to decide, I would nevertheless like to see the Director of Industries satisfying himself on this important point for financial assistance or concession of any kind. The funds of Government can be more usefully employed for the material and social improvement of the people of the State rather than in the

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embarkation of speculative enterprises. Far better will it be to allow the individual capitalist to work out his own schemes of enterprises than for him to be associated with Government. All that Government should do is to be liberal in their concessions as regards supply of raw material, site, power and freedom from taxation until the venture has been proved a success.

As regards the establishment of a Land Mortgage Bank in the State with the primary object of affording relief to Agriculturist, I have less hesitation in stating that the creation of such an Institution will result in a greater failure than the Agricultural Land Banks of 1880 have proved to be. If the relief of the general indebtedness of the landholders of this State is to be really attempted, I am of opinion that the minimum capital required will not be less than 250 lakhs, and which sum would have to be forthcoming from Government or be borrowed under the guarantee of Government. The acceptance and negotiability of such a security by Investors and Banks in India is very doubtful, and would not, also, I fear, appeal to the public of Mysore. I take the liberty to enclose a Note on this question of the redemption of debt, through the agency of a Land Mortgage Bank with Articles of Association, which I submitted to the Chairman of the Committee appointed by Government to report on the working of Mysore Co-operative Societies, and which contains my views fully on the causes tending to

increase the indebtedness of agriculturists and landowners. The great drawback, as well as danger, in making advances on landed property is the reluctance of a cultivator of one village buying lands in another, and the boycott which is often so successfully applied by an owner whose property is offered for sale by Government or a creditor for non-payment of dues. The owner knows well enough that neither the Government nor the creditor will cultivate his land, and by an effective boycott of outsiders can force Government or the mortgagee to accept his own terms. The Directors of the Bank of Mysore can in no way lend monies to a Land Mortgage Bank, but they are willing to undertake the supervision of such an institution which has the financial backing of Government or the investing public. I would venture to remark that I do not hold to the exaggerated views that are put forward by some people of the enormity of the agricultural indebtedness. If the rise in prices of all agricultural products that has occurred in recent years has not to some extent enabled the Agriculturist to liquidate his indebtedness, then I fail to see how the establishment of a Land Mortgage Bank is going to be of any help. No doubt prices have since fallen, and may fall still further, resulting in a depreciation in the value of agricultural land which had acquired an inflated value owing to the abnormal rise in prices of -----

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commodities. What in my opinion is likely to be more useful to the agriculturist than the repayment of his indebtedness in one lump would be a more generous treatment of him by Government, such as the provision of good manures and seeds at cost price, the use of mechanical ploughs at a nominal cost, an extension of irrigation to dry regions, and the grant of loans by Co-operative Societies during sowing and harvest times only, solely for agricultural purposes, and secured on the growing crop and strictly repayable from the proceeds of the ensuing harvest. A closer co-operation between the Director of Agriculture and the Registrar of Co-operative Societies is most desirable. Reduction of indebtedness can best be achieved from increased productiveness of the soil, and to this end should the activities of the Agricultural Department be still further encouraged. In my opinion the position of the Agriculturist while it is serious enough, is not so bad as that of the middle classes with more or less fixed incomes, and having to face a steady increase in the cost of living. But nothing is going to reduce indebtedness until the many social evils that are primarily responsible for the indebtedness of the people are removed. One reads a good deal about legislative ~~power in~~ reforms that are contemplated to give political power in the hands of the

elected representatives of the people, but unless these leaders intend to use their political powers for the removal of the numerous social evils that are in my opinion the chief reasons for keeping down the national progress of a continent of peoples, then I fear the present unfortunate financial condition of the Indian people must continue to the end. The Directors cannot recommend Government associating itself either financially or administratively in any scheme for the creation of a Land Mortgage Bank, more particularly in the present conditions of financial stringency, and the desirability of Government to maintain a high level of credit in the Share Markets of London and India for its own financial needs in the future.

As already stated, it would be far better for the Government to spend their surplus revenues for the amelioration of the health and better housing, and spreading of primary education among the people, than to advance money on immovable properties which sooner or later they would be compelled to foreclose upon with loss.

Yours faithfully,

MANAGER.

Encl:

MSR

Enclosure to letter dtd 15.6.23

Financial Secretary.

The chief difficulty that defies the successful working of any proposal for the reduction of the indebtedness of land-owners and agriculturists lies at the door of these two classes themselves. There is no gainsaying the fact that money ostensibly obtained for land improvements, purchase of stock seeds, etc., is seldom wholly utilized for these purposes, but is more often than otherwise applied wholly or in part for social needs, litigation, payment of Government revenue, etc. I have invariably been told that it is madness to expect such a self inflicted denial on the part of a landlord or agriculturist to utilize an advance for his own material advancement. This class is willing to receive as much money as it can lay hands on. In a few words the mentality of the great majority of this class of debtors unfortunately is to get into debt - remain in debt and die in debt. One has only to contrast this trait of character with that of farmers and small landowners in Europe whose one aim is to possess his own bit of land and "castle" free of debt and it is due to such high aims that land mortgage Banks in Europe have proved their usefulness. Under the unfortunate conditions prevailing in India, it is well nigh impossible to devise schemes to rescue debtors unless the most stringent measures are laid down for the correct utilization of advances, and severe action promptly taken against the borrower when it is ascertained that the money has been wrongly applied. It is, also, desirable that the borrower should not be allowed to handle money intended for redemption of prior *debt* or for the improvement of his land, etc. The actua

Enclosure to letter dtd 15. 6. 23

Financial Secretary

The chief difficulty that defies the successful working of any proposal for the reduction of the indebtedness of land-owners and agriculturists lies at the door of these two classes themselves. There is no gainsaying the fact that money ostensibly obtained for land improvements, purchase of stock seeds, etc., is seldom wholly utilized for these purposes, but is more often than otherwise applied wholly or in part for social needs, litigation, payment of Government revenue, etc. I have invariabl been told that it is madness to expect such a self inflicted denial on the part of a landlord or agriculturist to utilize an advance for his own material advancement. This class is willing to receive as much money as it can lay hands on. In a few words the mentality of the great majority of this class of debtors unfortunately is to get into debt - remain in debt and die in debt. One has only to contrast this trait of character with that of farmers and small landowners in Europe whose one aim is to possess his own bit of land and "castle" free of debt and it is due to such high aims that land mortgage Banks in Europe have proved their usefulness. Under the unfortunate conditions prevailing in India, it is well nigh impossible to devise schemes to rescue debtors unless the most stringent measures are laid down for the correct utilization of advances, and severe action promptly taken against the borrower when it is ascertained that the money has been wrongly applied. It is, also, desirable that the borrower should not be allowed to handle money intended for redemption of prior debt or for the improvement of his land, etc. The actual

creditors must be discharged by the association granting the loan, and the borrower prevented from creating a second mortgage or in any way encumbering his land or crop.

The borrower should be treated in the same way as he would be under the Madras Court of Ward Act, i.e., be made helpless to incur any fresh debt. A borrower not ~~xxfxrx~~ conforming to such conditions had best be left along to welter in his own debts. He must be educated to learn that such severe conditionsare to his own future interest and welfare and until the lesson is driven home his case will be hopeless.

I am of opinion that the "Usurious loan act" in British India should be introduced into Mysore with a maximum rate of interest fixed for advances to landowners and agriculturists. I am aware that such a limitation is capable of being easily circumvented, but once such a practice be detected the mortgage should be declared by the Courts as null and void. It is only some such stringent legislation that will check the present Shylock proceedings of a large number of moneylenders. I believe the working of the Punjab Land Alienation Act has worked well in the interests of the agriculturists, and the talk at the time of the introduction of the act of wholesale bankruptcy of the landowning class has proved a myth, and am of opinion that a similar measure of protection should be introduced into Mysore. The land owners in the State if they earnestly desire to be free men must act or be taught to act up to the following economic principles:-

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1. Lead an industrious life and cultivate his lands regularly and scientifically.

2. Discharge his debt from his own surplus funds and life within his means.

3. Avoid further indebtedness except in such cases of the failure of rains or heavy loss of cattle through disease.

It is only by acting up to such simple principles that the prudent man can expect to relieve himself eventually of indebtedness and make any material progress.

Holding these views I have endeavoured to draw up a scheme which has been officially submitted to the Government and which embodies its aims, and at the same time gives full protection to investors. I have fixed the maximum currency of a loan as 20 years, a sufficiently long enough period for any debtor to discharge his debt. To those incapable of redeeming their debts within this period there is no alternative but for them to enter into an arrangement with their creditors for a composition of their claims. Sentiment must not be permitted to play any part in the advancement of loans, which must be on a strict business footing, and the Directors held personally responsible for any deviation from the Articles of Association. The important matter that I have not touched upon in my note is the question of the rights and modes of execution of the Association against defaulting the borrowers There can be no questioning the fact that any measure to be efficacious must be promptly enforced. The Law governing th

great French Land Bank called the "Credit Foncier" for evictions and sale is what I should like to see passed by the Mysore Government with necessary modifications to suit local conditions, simultaneously with any scheme for a Land Mortgage Bank. I can see no objections to this French Law and the other two protective measures referred to becoming the instruments for the working of a Land Mortgage Bank.

Sd/- W. C. Rose.

THE MYSORE LAND MORTGAGE ASSOCIATION.

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1. This Association shall be called the Mysore Land Mortgage Association.

2. The Head Office of the Association shall be situated at Bangalore.

3. The object of the Association is to grant loans to members only on the mortgage of lands and buildings situated within the State of Mysore and provided the proceeds of such loans are utilised for the following objects:-

(a) Redemption of prior indebtedness when the estimated annual revenue of the land or rental of the building is sufficient to liquidate the principal and interest within a maximum of 20 years.

(b) For the improvement of land or purchase of cattle, seeds, manure or machinery when approved by the Department of Agriculture.

(c) For the purchase of landed property of any description when such property is for the extension of an adjoining estate, or intended for agricultural purposes.

(d) But no portion of any advance is to be utilised for social needs, purposes of litigation, payment of land revenue or the construction of buildings for rent othe than for the improvement of an existing building or th construction of buildings intended for the occupation of an agriculturist. No advance is to be made on mortgage appertaining to any land or building.

(e) Provided that the Association conducts no Banking business such as opening floating accounts, receiving deposits, discounting bills or negotiating bills of Joint Stock Banking Concern.

4. The liability of the members of this Association shall be limited to the uncalled capital, if any, of the shares held by them in the Association.

5. There shall be 20,000 shares in the Association of the value of Rs.100 each.

6. Membership of the Association is open to every subject

of His Highness the Maharaja of Mysore who is legally capable of entering into a contract and a permanent resident within the Mysore State.

7. Every member of the Association must hold in his own right at least one share and not more than ten shares entitling him to an advance, by way of mortgage on landed property only, not exceeding Rs.1000/- per fully paid up share.

8. Shares are not transferable except with the sanction of the Directors and provided the holder is not indebted to the Association.

9. The funds of the Association shall include share capital long term deposits secured by the issue of mortgage bonds, grants and aid from the Government of His Highness the Maharaja of Mysore, and temporary advances from the Bankers of the Association, but at no time shall the liabilities of the Association exceed Rs.1 crore.

10. The Association shall not grant loans below Rs.1000/- nor above Rs.10,000/Rs ordinarily.

11. Loans granted by the Association shall bear a minimum interest of 7% per annum with a maximum of 1% above the Bank of Mysore, Ltd., ordinary rate of interest for loans for the time being.

12. Loans granted by the Association shall be repayable by equal yearly instalments and limited to a maximum period of 20 years. Nothing however in this section shall be considered to preclude the Directors from fixing a shorter period of repayment or the borrower from ~~repayment~~ repaying his loan in full at any time convenient to him.

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13. The loan and the interest shall be discharged by a system of equated payments.

14. The working expenses of the Association may be recovered by the levy of a charge on the loans granted by the Association at the absolute discretion of the Directors from time to time.

15. Loans shall be granted by the Assooiation only on the mortgage of immovable property situated within the Mysore State.

16. Loans granted by the Association shall not exceed 60% of the ascertained value of the property to be offered as a mortgage to the Association, and provided the estimated revenue or rental of the land or building is sufficient to repay the advance within a maximum period of 20 years or less at the absolute discretion of the Board of Directors.

17. The valuation of the properties offered as security for loans shall be made by a special officer or officers deputed by the Association or by the Managing Agents in accordance with subsidiary rules to be framed in that behalf and at the cost of the borrower.

18. Loans granted by the Association shall not be liable to be recalled so long as the annual instalments and other charges due thereon are regularly paid but if a loan is utilized for a purpose or purposes different from that mentioned in Article 3 or for which it was granted, or if the property on which it is secured is in the opinion of the Directors been allowed to diminish in value or is further encumbered or alienated without the sanction of the

Directors the loan shall be recalled without reference to the terms on which it is granted.

19. Loans are also liable to be recalled:-

(a) If, after the grant of a loan, the information obtained regarding the property, and the rights of disposal thereof are found to be incorrect.

(b) On the retirement of the borrower from the Association.

(c) If the debtor remains more than 6 months in arrears with a payment due.

(d) If on account of death, insolvency or attachment by other creditor or creditors or for any reason the debtor ceases to be a member.

20. If in any case not expressly provided for above, the Board of Directors consider that a debt is likely to become a bad debt, the loan may be recalled.

21. When a loan recalled by the Board of Directors is not repaid within 6 months from the date of recall the Directors shall in the exerci-se of the authority vested in them under sections 18 and 19 order a foreclosure of the mortgage, and shall also have the power of distraint executed in the same manner as if passed by a competent Civil Court.

22. The Association may raise loans on the guarantee of the Government of His Highness the Maharaja of Mysore and or by the issue of mortgage bonds with or without such Government guarantee bearing interest not exceeding the minimum rate of interest payable by members of the Association for the time being

for a currency not exceeding 20 years as may be prescribed by the Directors or borrow from the Bankers of the Association on the security of such mortgage bonds or the guarantee of the Government of Mysore.

23. Mortgage bonds shall not be issued except with the previous sanction of the Government of Mysore, and they shall be in such form and to such extent and contain such covenants and provisions as the Directors may with the previous sanction of the Government prescribe in this behalf.

24. The Association may annually draw for redemption by lot, as many mortgage bonds as its financial condition permits and or by repurchase of its bonds. But any bond drawn for repayment within 5 years of its issue is to be repaid at a premium not exceeding 3%.

25. The Directors shall be at liberty to effect a reduction in the rate of interest payable on any series of mortgage bonds provided that option is first given to the holders of such bonds to accept repayment in cash at par value, and also to reduce the currency of any series of mortgage bonds provided the Bonds have at the time of such proposed reduction been in circulation for a minimum period of 5 years.

26. The administration of the Association shall be vested in the following:-

(a) Board of Directors
(b) Managing Agents, and
(c) The General Meeting of the Members of the Assn.

27. Members of the Board of Directors must be members of the Association provided that the Government of His Highness the Maharaja of Mysore and the Directors of the Bank of Mysore, Ltd., shall have the right to nominate two persons each to the Board of Directors whether members of the Association or not.

28. The Board of Directors shall consist of a maximum of 7 members three of whom to be selected triennially by the members of the Association at any annual meeting. In the event of any vacancy occurring on the Board of Directors, election shall be made by a special ballot within three months of the date of such vacancy, failing which the Board of Directors are empowered to temporarily elect a member of the Association and who shall hold office for the unexpired period of the retired or deceased Director.

29. The Board of Directors shall administer and conduct the affairs of the Association, prepare and issue agreements declarations, etc., represent the Association by one of its members selected for the purpose of all legal proceedings It shall also appoint control dismiss and remove the Managing Agents, legal advisers and any officer agent or servant engaged on behalf ofthe Association.

30. The Managing Agents shall, subject to the Direction and control of the Board of Directors, supervise and conduct the business of the Association. In particular they will

arrange for:-

(a) The accounts of the Association to be audited at least twice a year, viz., on the 31st March and 30th September in each year, and submit the same to the Board of Directors for confirmation.

(b) Present through the Board of Directors to the General Meeting an audited yearly statement of accounts.

(c) Comply with all the written instructions of the Board of Directors necessary for the carrying out of the bye laws of the association as approved by the members of the Association.

(d) To undertake the issue of mortgage bonds as authorised by the Board of Directors.

31. The accounts of the Association shall be audited at least twice a year by a firm of Chartered Accountants or by a duly certified auditor elected by the Association and by an officer deputed by the Mysore Government.

32. Any other matters concerning the organization, the working of the Association and the investment of its funds as well as to the remuneration to be paid to the Board of Directors, Managing Agents, the local agents if any and the auditors shall be fixed by and be at the absolute Direction and control of the Board of Directors and be subject to the confirmation of the Association at every annual General Meeting.

33. The Regulations shall require the approval of the Government of Mysore.

34. The Directors shall create a Reserve Fund and to this shall be carried:-

(a) A sum not less than 10% of the net profits of every year.

(b) The interest on the capital of this fund.

(c) Dividends or monies outstanding for more than 5 years.

(d) The proceeds of drawn and expired mortgage bonds if unclaimed after 7 years.

G. R. S. III-2]

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General and Revenue Secretariat. | File No. | of 19 ".

Serial No.

D.C.W.Co. 132-92 — Copy Dewan's order on Mysore Bank's letter Marked below

28/9/16/23

Forwarded to the Director of Industries & Commerce with compts for favour of remarks

M. Krishna Rao
18/6/23

M.O No 695/c
Case file

Returned with compliments,
Vide reports under above

Sd
20/6/23

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Note by the Director of Commerce

I do not share Mr. Rose's pessimism in regard to the possibilities of devising a satisfactory scheme of financial assistance by Government to Industries. Mr. Rose assumes that the bulk of the industries in the State are started as Joint Stock concerns. But this is not so and the future industrial development of the State in the next decade will depend not so much on the establishment of large Joint Stock concerns as small concerns, the capital required for which will at the utmost not exceed one or two lakhs of rupees. As pointed out by the Indian Industries Commission the real problem in India is therefore not so much the pioneering of large organised industries as of small concerns not requiring any large capital which are run as partnership or individual proprietary concerns.

So far as Joint Stock Societies are concerned there is much force in Mr. Rose's suggestion that unless such concerns are able to raise sufficient capital from the shareholders themselves to erect the plant and start working it, the grant of monetary help would merely put off the evil day and I am in agreement with his views in this respect.

Even in regard to Mr. Rose's dictum an exception is recognised in the case of what are known as Key industries and though it may be difficult in Mysore, not having any independent fiscal policy, to apply the principles which are now accepted in regard to such industries to conditions in the State, yet there are certain industries the development of which will so materially promote economic improvement that Government are justified in giving special help to such industries. I should therefore regard every industry with reference to the conditions in Mysore that is

is likely to promote the increase of agricultural production such as the manufacture of ploughs and other agricultural implements, supply of manures such as oil cakes &c., pumping installations for irrigation, machinery for dealing with agricultural products or as are calculated to help the next important industry viz., Handloom weaving, as deserving the special consideration by Government.

The chief raw materials of the State which may be used for ~~the~~ manufacturing purposes to supply the needs of the people are Cotton, Wool, Silk, Sugarcane, Oil seeds minerals such as Iron Ore, Chrome, Manganese, Kaolin &c.

In regard to Cotton, Wool and Silk there has been within the past three years such a remarkable development of cotton and woollen mills in the State that it is no longer necessary for Government to consider the grant of any financial assistance to such Mills, but as the development of these mills to a certain extent affects the hand-loom weavers prejudicially Government should afford special encouragement to concerns that undertake to supply sized Cotton warps and yarns, and woollen yarn and twisted and thrown silk to handloom weavers and we shall be able materially to assist these cottage industries if Government could make about 3 Lakhs of Rupees available for the purpose of helping handloom weavers. The margin for profit in such operations is sufficiently large to preclude any actual loss, though owing to deficient organisation private enterprise is backward to move in this direction. In the case of power looms, however, which the Department has been able to prove can be started even on a small scale ~~for sometime~~ on a profitable basis the industry has to be encouraged for some time more by the liberal grant of loans. 2C

In regard to Sugar conditions in Mysore are exceptionally favourable but it is not likely that the industry will

will ever come into existence if left to private enterprise unless Government approve of some scheme for raising debentures in which interest is guaranteed as recommended by the Sugar Committee.

There should be no difficulty also in establishing a factory for the manufacture of Agricultural machinery but this also needs considerable Government help initially.

The success of the Anderson Oil Expeller in the Department has stimulated the oil crushing industry but what the people urgently require is a smaller mill that could be set up in all oil producing centres so that both the oil and cake may be sold readily on the spot. But private enterprise is not likely to solve the problem and even if we demonstrate a suitable type of a mill local enterprise can be encouraged only by special financial assistance from Government.

Our present intention is not so much to fill the State with large joint stock organisations as to develop ordinary industries and financial conditions are not at all favourable to such industries. In the first place the resources of the individual who wishes to start such industries may not be sufficient to provide the capital required and even if he has credit, if such credit has been drawn upon to provide the capital required for his equipment he will not have sufficient working capital and will therefore soon get into difficulties. Our system of Taccavi loans advances is -- therefore designed primarily to meet such cases. But it is for this very reason that no Bank will be inclined to take the special risks attendant on financing such industries. In the first place the amount required to meet the needs of a particular industry will not be large and a Banker is particularly averse to small sums being locked up in

in any concern. In the second place as the amount is not likely to be paid back for long periods and cannot be rapidly turned over it will affect his operations if any large ~~amount~~ number of such loans is given. Then there is the natural feeling of a Banker against risks that do not hold out prospects of any large return as it would be safer and more profitable for any Bank to restrict itself to lending money to cases where the security is readily realisable and has a definite market value than to - - undertake giving loans for new industries after any - elaborate investigation into the profitable character of the industry and the possibilities of its being work -od with success by the person who wants a loan. The Bank will be glad to lend the money to Government if it is assured against all risk but where such a course is necessary Government may itself lend the money as the amounts that may be so invested are not likely to be - and should not be large and the margin of loss is not likely to be greater than would have to be guaranteed to the Bank.

It is not necessary to dwell upon the failure of the Tata Industrial Bank as has been done in Mr. Rose's note to indicate the difficulties of solving the question of Industrial finance, for the causes of such failure are - various and the absence of suitable private agencies to furnish financial assistance to the small industrialist merely emphasises the need for Government help. Nearly every local Government has recognised this and in several Presidencies a special enactment has been passed providing for the grant of such loans. Even in England the Government has recently As the Bank of Mysore for the reasons I have already pointed out does not seem to be prepared to take any risk on the one side and on the other can find more remunerative though perhaps not such beneficial uses for its funds,

as would result in case it is able to help a number of small industries, I am strongly of opinion that Government should carry out its original scheme of the Industrial Investment Fund. From the time the Taccavi Loan System was introduced the total amount paid by Government for loans of various kinds is Rs 8,50,791-4-10 out of this Rs 4,19,620/14/- has been recovered. There is much misapprehension regarding the general results of these loans and though it cannot be denied that there have been failures the impetus the system has given to the development of industries is more than counter-balanced by a few failures which are merely due to the incapacity of the persons concerned. Leaving out of account large mills and factories, more than 1,500 H.P. of electric power is consumed by small industries in the Cities of Bangalore and Mysore and about 6,000 H.P. is generated by oil and gas engines which would have been impossible but for the generous assistance rendered by Government in its initial stages.

If we can build up a fund of about Twenty Lakhs of Rupees we shall have ample funds to meet the needs of growing industries. At present the year's grant for loan is merely based on the recoveries for the year which do not amount on the average to more than Rs 50,000/-, - - though last year owing to the special efforts made by the Department the amount was raised to Rs 78,908/- If the amounts to the credit of the scheme with the exception of loans aggregating about 1½ Lakhs advanced to special concerns such as the Thirthahalli Tile Factory which I feel cannot be regarded as good assets be treated as the nucleus of the fund and all recoveries are added to it and an additional allotment of Rupees One Lakh given annually for a period of five years we shall have built up a sufficient fund to meet the requirements of our ordinary industries.

The administration of this fund can be ~~made~~ carried on on thoroughly business lines and a detailed scheme will be submitted if Government approve of the proposals.

I also consider that the loans to be granted by - - Government should be confined to the supply of machinery but for working capital arrangements should be made with a Bank as recommended by the Indian Industries Commission as these transactions require to be closely watched and the amounts should be kept regularly rotating. The failure of many industries is due to the inadequacy of this working capital and arrangements may be made with the Bank of Mysore for providing such working capital with a guarantee in suitable cases recommended by the Department and approved by Government.

In regard to Mr. Rose's views on the formation of a Land Mortgage Bank it is true that the prices have to a certain extent benefited the agriculturist but not to - such an extent as to reduce their indebtedness. It is impossible to improve the lot of the Agriculturists unless they are not only relieved of their indebtedness but also provided with facilities to obtain the capital required for improvements, the cost of which cannot be recouped in two or three seasons. So far as Co-operative Credit Societies are concerned it is not possible for them to give any long term loans. The surmise of Mr. Rose that a Land Mortgage Bank will be even a more egregious failure than the old Agricultural Banks overlooks certain fundamental points of difference.

a) In the case of Agricultural Banks Government practically advanced to the Bank the full value covered by the properties possessed by the Members of the Bank. There were no deposits and once the amount was divided there - were no other funds to work the bank.

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b) In the case of a Land Mortgage Bank, the Bank will be allowed to raise funds in addition to the share capital by the issue of Debentures secured on the joint security of the immoveable property of the members and as these - would be negotiable the assets of the Bank can be kept - rapidly circulated and individual defaults will not affect the Bank.

The Government of India is considering the question of allowing Central Banks the power to issue debentures with Government guarantee as regards the interest to be paid and as a preliminary I think we may confer such a power on the Central Bank and take up the question of the starting of a Land Mortgage Bank later on after we have gained more experience of the working of this system.

The conditions in the Malnad are somewhat different. It is doubtful if these debentures will be of much help to the indebted landholders and a small Land Mortgage Bank on the lines on which a scheme was prepared by Mr. Ranga Rao may be adopted for the Malnad (for the Malnad)

USC)

Director of Industries.

Serial No.

Industrial finance.

The Director is of opinion that the original scheme of the Industrial Development Fund should be revived and states that if a sum of Rs.20 lakhs can be built up, it will suffice for meeting the needs of growing industries. There can really be no Fund of this kind. What is wanted is money for making loans and the funds required for this purpose have to be met from our capital resources. These resources have to bear a very heavy strain now and for a few years to come, as we have a number of capital demands to provide for. If a sum of Rs.20 lakh should be provided for this purpose, it would mean a corresponding reduction in the amount available for ou productive works. We are not in a position to make such a large amount available for being advanced for industrial purposes.

Apart from the difficulty of providing funds on the scale proposed, I have to state that considerable caution is necessary in advancing money for industrial purposes as the experience of financing industries, in and outisde the State, is very far from encouraging. I think that for some time to come it is sufficient to continue the existing system of taccavi loans to the extent that we can provide funds for this purpose every year. It is undesirable to permit, for some years to come,

developments

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developments of the scheme in any direction which will involve the increasing of our capital commitments and the incurring of risks which we cannot now take.

Land Mortgage Bank.- I think that, in the circumstances explained by Mr. Rose, it is inadvisable for Government to embark upon any scheme of this kind.

Dewan

Mull 8/8/23

Rec'd on AUG 9 1923 789

and the present position is that all loans by Govt. have to be continued & the Bank must be wound up. Thus the small reserves will be standing for the ever. Hence Govt. to consider the question of winding up.

Forwarded to the Chief Secy with Compts

Mull 24-8-23

1st Member / 2nd Member

23/8

Sec'y 23/8

1477 27.8.23

NOTE—Contn. sheet.